IMMEDIATE **Circular No. 107**

F. No. 275/57/73-ITJ

GOVERNMENT OF INDIA

Ministry of Finance

(Department of Revenue and Insurance)

New Delhi, the 7th March 1973.

From

Shri K. R. Raghavan,

Deputy Secretary to the Government of India.

To

All State Governments

Sir,

Subject:—**Deduction of tax at source-Income-tax deductions from salaries during 1973-74.**

I am directed to invite a reference to this Ministry's Circular No. 83 (F 275/10/72-ITJ) dated the 21st March 1972, on the subject of deduction of income-tax from salaries paid during the year 1972-73. The Finance Bill introduced in the Parliament on the 28th February, 1973, inter alia, prescribes the rates at which income-tax has to be deducted during the financial year 1973-74 from income chargeable under the head "Salaries". These rates will be applicable to deduction of tax from salaries paid or payable on or after the 1st April, 1973. An extract of Sub-paragraph I of Paragraph A of Part III of the First Schedule to the Finance Bill, 1973 in so far as it relates to levy of income-tax on "Salaries", is enclosed herewith incorporating also an Explanatory Note (Annexure I). It is requested that pending the passing of the Finance Bill, 1973, deductions of Tax from "Salaries" may be made during the financial year 1973-74 according to the rates in the said Schedule. Three typical examples of calculations are given in Annexure-II.

2. The substance of the main provisions in the law in so far as they relate to income from "Salaries" on which tax is to be deducted at source during the financial year 1973-74 is given hereunder :

(*i*) No tax will be deductible at source in any case unless the estimated salary income for the financial year exceeds Rs. 5,000.

(*i*) While computing the taxable income, the Disbursing Officers should allow a deduction of the whole of the first Rs. 2,000, 50 per cent of the next Rs. 3000 and 2 of the balance of the qualifying amount of payments towards Life Insurance Premia, Contributions to Provident Fund, Contributions for participation in the Unit-linked Insurance Plan. 1971 made under section 19 (1) (cc) of the Unit Trust of India Act, 1963 and deposits in a 10-year Account or 15-year Account under the Post Office Savings Bank (Cumulative Time Deposit) Rules, 1959. The qualifying amount of these items taken together will be limited to 30 per cent of the estimated 'Salary' [after the deduction, if any, for profession tax etc. referred to in item (v) and for expenditure on travelling referred to in item (vii) herein below] or Rs. 20,000 whichever is less.

(*iii*) The total income computed in accordance with the provisions of the Act should be rounded off to the nearest multiple of ten rupees by ygnoring the fraction which is less than five rupees and increasing the fraction which amounts to five rupees or more, to ten rupees. The net amount of tax deductible should be similarly rounded off to the nearest rupee.

(iv) No deduction should be made from the salary income in respect of any donations for charitable purposes. The tax relief on such donations will have to be claimed by the tax-payer separately at the time of the finalisation of the assessment However, in cases where contributions to the National Defence Fund, Jawaharlal Nehru Memorial Fund or the Prime Minister's Drought Relief Fund are made by deduction from the pay-bills, 55 per cent of such contributions may be deducted in computing the taxable income of the employee. Care should be taken to see that the aggregate of such contributions for the year is not less than Rs. 250. Disbursing Officers should show the total contributions in the remarks column of the return under Section 206 of the Income-tax Act, 1961.

(v) In cases where deductions are claimed on account of tax on professions, trades, callings or employments levied under any State or Provincial Act, the same may be allowed from the total income for purposes of deduction of tax at source on production of proof by the assessee before the Disbursing Officer. The adjustment in this behalf in the tax deductible at source may be made in the last month.

(vi) No deduction should be made from the salary income in respect of any expenditure on the purchase of books and other publications; such expenditure has to be claimed by the tax-payer at the time of finalisation of the assessment.

(vii) The Income-tax Act, 1961 provides for standard deductions in the case of salaried tax-payers in respect of expenditure on travelling for the purposes of employment, provided they are not in receipt of a conveyance allowance. The amounts of these standard deductions are given below:—

Category of tax-payers	Amount of standard deduction for each calendar month or part thereof comprised in the period of employment or during which the conveyance has been used for the purpose of employment.
(1)	(2)
	Rs.
1. Tax-payers owning Motor Cars.	200
2. Tax-payers owning Motor Cycles. Scooters or other Mopeds.	75
3. Tax-payers other than those referred to at items (1) and (2).	50

In the case of tax-payers owning cars, motor cycles, scooters or other mopeds, the Standard deduction is admissible only if the conveyance is registered in the employee's name and not in the name of any other person, even though such employee may claim to have purchased it from his own funds. (Each employee claiming such deduction will furnish to the disbursing authority a certificate that the conveyance is registered in his own name).

The Standard deduction of Rs. 50 per month is admissible to such of the salaried tax-payers who do not own any conveyance as also to those who own a bicycle or any other conveyance, not being a motor car, motor cycle, scooter or other moped; for such an employee to be eligible for this deduction, it is not necessary to establish that he had actually incurred any expenditure on travelling for the purposes of his employment.

The deduction of the appropriate amount for expenditure should be allowed in calculating the tax to be deducted at source from the salary income.

The standard deductions mentioned above will not be available to an employee who is in receipt of a conveyance allowance whether as such or as part of his salary.

(viii) In the case of an employee in receipt of a conveyance allowance the disbursing officer may, exclude from the salary of the employee that part of the conveyance allowance which is equal to the amount that was treated as exempt under Section 10 (14) by the Income-tax Officer in the last completed assessment of the employee. For this purpose, the employee concerned should furnish to the disbursing authority a declaration as to the amount of the conveyance allowance which was treated as exempt from tax in his last completed income-tax assessment specifying also the year to which such assessment relates.

(ix) Attention is also invited to Section 276 B, wherein is provided that if a person without reasonable cause or excuse fails to deduct or after deducting fails to pay the tax as required under the provisions of Chapter XVII B of the Income-tax Act, 1961, he shall be punishable with rigorous imprisonment for a term which may extend to six months, and shall also be liable to fine which shall be not less than a sum calculated at the rate of fifteen per cent per annum on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid.

3. If any changes are made in the Finance Bill, 1973 before it is passed into law, the same will be communicated to you in due course.

4. These instructions may please be brought to the notice of all Disbursing Officers and State Undertakings under the control of the State Government.

Yours faithfully,

Sd/-

K. R. RAGHAVAN,

Deputy Secretary to the Government of India.

'COPY'

R. H. DESHPANDE,

37 *Section Officer (F. D. Resources).*

ANNEXURE-I

Extract from the Finance Bill, 1973 First Schedule Part III

Paragraph "A"

Sub-Paragraph-I.

In the case of every individual or Hindu Undivided Family or Unregistered Firm or other Association of Persons or Body of individuals whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause 31 of Section 2 of the Income-tax Act, not being a case to which Sub-paragraph II of this Paragraph or any other paragraph of this part applies.

RATE OF INCOME-TAX

1.	Where the total income does not exceed Rs. 5,000.	Nil
2.	Where the total income exceeds Rs. 5,000 but does not exceed Rs. 10,000.	10 per cent of the amount by which the total income exceeds Rs. 5,000.
3.	Where the total income exceeds Rs. 10,000 but does not exceed Rs. 15,000.	Rs. 500 plus 17 per cent of the amount by which the total income exceeds Rs. 10,000.
4.	Where the total income exceeds Rs. 15,000 but does not exceed Rs. 20,000.	Rs. 1,350 plus 23 per cent of the amount by which the total income exceeds Rs. 15,000.
5.	Where the total income exceeds Rs. 20,000 but does not exceed Rs. 25,000.	Rs. 2,500 plus 30 per cent of the amount by which the total income exceeds Rs. 20,000.
6.	Where the total income exceeds Rs. 25,000 but does not exceed Rs. 30,000.	Rs. 4,000 plus 40 per cent of the amount by which the total income exceeds Rs. 25,000.
7.	Where the total income exceeds Rs. 30,000 but does not exceed Rs. 40,000.	Rs. 6,000 plus 50 per cent of the amount by which the total income exceeds Rs. 30,000.
8.	Where the total income exceeds Rs. 40,000 but does not exceed Rs. 60,000.	Rs. 11,000 plus 60 per cent of the amount by which the total income exceeds Rs. 40,000.
9.	Where the total income exceeds Rs 60,000 but does not exceed Rs. 80,000.	Rs. 23,000 plus 70 per cent of the amount by which the total income exceeds Rs. 60,000.
10.	Where the total income exceeds Rs. 80,000 but does not exceed Rs. 1,00,000.	Rs. 37,000 plus 75 per cent of the amount by which the total income exceeds Rs. 80,000.
11.	Where the total income exceeds Rs. 1,00,000 but does not exceed Rs. 2,00,000.	Rs. 52,000 plus 80 per cent of the amount by which the total income exceeds Rs. 1,00,000.
12.	Where the total income exceeds Rs. 2,00,000.	Rs. 1,32,000 plus 85 per cent of the amount by which the total income exceeds Rs. 2,00,000.

SURCHARGE ON INCOME-TAX

The amount of income-tax computed in accordance with the preceding provisions of this paragraph shall be increased by a surcharge for purposes of the Union calculated at the following rates *viz* :—

(a) in a case where the total income does not exceed Rs. 15,000 — 10 per cent.

(b) in any other case — 15 per cent.

Provided that the amount of surcharge payable shall, in no case exceed the aggregate of the following sums, namely :—

(i) an amount calculated at the rate of 10 per cent on the amount of income-tax on an income of Rs. 15,000 if such income has been the total income**** ; and

(ii) 40 per cent of the amount by which the total income exceed Rs. 15,000.

Explanatory Note .—

The operation of the above noted marginal relief provision in respect of surcharge, may be illustrated by the following examples :

EXAMPLE "A"

Total income	Rs. 15,100
Income-tax	Rs. 1,373 (Rs. 1,350 plus 23% of Rs. 100).
Surcharge leviable :	
At the flat rate of 15 %	Rs. 205.95 (15% of Rs. 1,373).
Under the Proviso	Rs. 175.00 (Rs. 135, being 10% of Rs. 1,350 which is the tax on a total income of Rs. 15,000, plus Rs. 40, being 40% of the amount by which the total income exceeds Rs. 15,000

As the surcharge calculated under the proviso is lower, the surcharge leviable in this case will be Rs. 175 only.

EXAMPLE "B"

Total income	Rs. 15,200
Income-tax on Rs. 15,200	Rs. 1,396 (Rs. 1,350+23 per cent of Rs. 200).
Surcharge leviable :	
At the flat rate of 15 per cent	Rs. 209.40 (15 per cent of Rs. 1,396).
Under the Proviso	Rs. 215.00 (Rs. 135 + Rs. 80 being 40 per cent of Rs. 200)

As the surcharge calculated at the flate rate of 15 per cent is lower, the surcharge leviable will be Rs. 209-40. The marginal relief provision will not, therefore, apply at this level, or above it.

ANNEXURE-II

Typical examples of income-tax calculation

EXAMPLE-I

1.	Total salary income	Rs. 9,500	
2.	Contributions to General Provident Fund	Rs 7 0	Rs 1,220
3.	Payment towards Life Insurance Premia	Rs. 500	

(The employee does not own a motor car, motor cycle, scooter or other moped).

4.	Total salary income	...	Rs. 9,500
5.	Deduct : Standard deduction in respect of expenditure on travelling at Rs. 50 p. m.	...	Rs. 600
			Rs 8,900
6.	Deduct : Whole of the qualifying contributions towards G. P. F. and Life Insurance Premia.	...	Rs. 1,220
7.	Taxable income	...	Rs. 7,680
8.	Income-tax payable on Rs. 7,680 *i. e.*, at 10 per cent on Rs. 2,680		Rs. 268.00
9	Union Surcharge at 10 percent on income tax.	...	Rs. 26.80
10.	Total tax payable.	...	Rs. 294.80
	rounded off to	...	Rs. 295.00

EXAMPLE-II.

1.	Total salary income	...	Rs. 18,325
2.	Contribution to General Provident Fund. Rs. 1,200		
3.	Payment towards Life Insurance Premia. Rs. 1,600		Rs. 2,800

(The employee has a scooter, registered in his name and uses it for the purpose of employment. He was on leave from 5th August to 3rd October during the year).

4.	Total salary income	...	Rs. 18,325
5.	Standard deduction at Rs. 75 p. m. for 11 months. (Since he was on leave for the full calender month of September, no standard deduction is admissible for one month: full deduction will be admissible for months of August and October during part of which he was on leave).	...	Rs. 825
			Rs. 17,500
6.	Deduct: Whole of the first Rs. 2,000 and 50% of the balance qualifying contributions towards G. P. F. and Life Insurance Premia (Rs. 2,000 plus 50% of Rs. 800)	...	Rs. 2,400
7.	Taxable income	...	Rs. 15,100
8.	Income-tax on Rs. 15,100 (Rs, 1350 plus 23% of Rs. 100).	...	Rs. 1,373
9.	Union Surcharge [at 15% of Rs. 1 373 works out to Rs. 205.95 but limited to Rs. 175 (Rs. 135 being 10% of Rs. 1,350 which is the tax on a total income of Rs. 15,000 plus Rs. 40 being 40% of amount by which the total income exceeds Rs. 15,000,].		Rs. 175
10.	Total tax payable.	...	Rs. 1,548

EXAMPLE-III.

1.	Total salary income	Rs. 28,588		
2.	Contribution to General Provident Fund	Rs. 3 500		
3.	Payment towards Life Insurance Premium.	Rs. 6,275		Rs. 9,775
4.	Profession Tax	Rs. 138		

(The employee has a car in the last eleven months of the year registered in his name and uses it for purposes of employment).

5.	Total salary income		...	Rs. 28,588
6.	Deduct: Professional Tax	Rs. 138		
	Standard deduction in respect of expenditure on travelling at Rs. 200 for 11 months and at Rs. 50 for one month	Rs.2,250	...	Rs. 2,388
				Rs. 26,200
7.	Deduction on account of contributions towards G. P. F. and Life Insurance Premia, Paid Rs. 9,775 in all but limited to 30% of Rs. 26,200, *i. e.*, Rs. 7,860.			
	On the first Rs, 2,000 (full)	Rs. 2,000		
	On the next Rs 3,000 at 50%	Rs. 1.500		
	On the balance Rs. 2,860 at 40%	Rs. 1,144	...	Rs. 4,644
8.	Taxable income			Rs. 21,556
		rounded off to	...	Rs. 21,560
9.	Income tax on Rs. 21,560 (Rs. 2,500 plus 30% of Rs. 1,560)		...	Rs. 2,968.00
10.	Union Surcharge at 15%		...	Rs. 445.20
11.	Total tax payable		...	Rs. 3,413.20
		rounded off to	...	Rs. 3,413.00

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Section Officer F. D. (Resources).

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